


AR23

# 66th ANNUAL REPORT 1977





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# ANNUAL MEETING



The Annual Meeting of Shareholders will be held at 10:00 o'clock a.m. (Toronto time) on Monday, April 24, 1978, in the Quebec Room, Royal York Hotel, Toronto, Ontario.

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## Capital Stock

Authorized: 3,000,000 shares without par value  
Issued: 2,434,482 shares

## Location of Mines

McIntyre Coal Mines, Smoky River, Alberta  
The Madeleine Mine, Ste. Anne des Monts, Quebec

## Executive and Head Office

Suite 5100, Commerce Court West  
Toronto, Ontario M5L 1C1

## Auditors

Price Waterhouse & Co.  
Chartered Accountants, Toronto, Ontario

## Transfer Agents

Canada Permanent Trust Company, Toronto, Ontario  
and Calgary, Alberta  
Bradford Trust Company, New York, N.Y.

## Registrars

Crown Trust Company, Toronto, Ontario and Calgary, Alberta  
The Chase Manhattan Bank (National Association), New York, N.Y.

## Stock Exchanges

The stock of the Company is listed for trading on the Toronto  
Stock Exchange and the New York Stock Exchange.

## Directors

*M. A. COOPER Toronto, Ontario	<i>President and Managing Director Falconbridge Nickel Mines Limited</i>
†*A. E. FELDMEYER Calgary, Alberta	<i>President and Managing Director Canadian Superior Oil Ltd. (Retired January 1, 1978)</i>
†*R. B. FULTON Toronto, Ontario	<i>Chairman of the Board, President and Chief Executive Officer of the Company</i>
H. M. GRIFFITH Toronto, Ontario	<i>Director The Steel Company of Canada Limited</i>
*H. B. KECK Houston, Texas	<i>President The Superior Oil Company</i>
W. M. KECK, JR. Los Angeles, California	<i>Director The Superior Oil Company</i>
SENATOR, THE HON. E. C. MANNING, P.C., C.C., LL.D. Edmonton, Alberta	<i>Chairman M. &amp; M. Systems Research Ltd.</i>
J. L. NORMAN Houston, Texas	<i>Senior Vice-President The Superior Oil Company</i>
†*L. T. POSTLE Vancouver, B.C.	<i>Consulting Engineer</i>

\* Member of the Executive Committee

† Member of the Audit Committee

## Officers

R. B. FULTON, *Chairman of the Board, President and Chief Executive Officer*  
P. A. CAIN, *Vice-President Operations*  
F. T. MCKINNEY, *Corporate Secretary*  
D. G. PAGE, *Comptroller and Treasurer*

## Operations

**Coal Division** J. J. CROWHURST, *General Manager, Grande Cache, Alberta*

**Madeleine Mine** G. B. DARLING, *General Manager, Toronto, Ontario*

**Exploration** P. A. LINDBERG, *Exploration Manager, Toronto, Ontario*

## DIRECTORS' REPORT

To the Shareholders:

The Company's earnings during 1977 from its operations, before provision for deferred income taxes, were \$9,023,000, compared with \$13,841,000 for the prior year. After tax earnings before non-recurring items were \$6,103,000 in 1977 and \$10,815,000 for 1976. Non-recurring items were a charge against 1977 earnings of \$3,003,000 resulting from a write-down in the coal inventory on hand at year's end from realizable value to cost, and a credit to 1976 earnings of \$2,741,000 as a result of the application of prior years' losses to taxable income. Consolidated results of the Company in 1977 including its equity in the results of its affiliated companies, Falconbridge Nickel Mines Limited and Madeleine Mines Ltd. and non-recurring losses including those referred to above were a loss of \$15,414,000 or \$6.51 per share, and earnings of \$16,164,000 or \$6.82 per share for 1976. Additional non-recurring losses charged against the Company's 1977 consolidated results were \$13,450,000 resulting from writedowns of investments in affiliated companies, and a credit to earnings of \$7,535,000 representing the Company's equity in the gain on sale of an investment by an affiliate.

1977 earnings from the Company's operations were below those of the previous year despite higher coal prices and a significant reduction in production costs. Adverse factors were higher rail freight charges and coal royalties, increased exploration costs, and loss of dividend income from the Company's affiliates. Coal Division production revenue and earnings for 1977 were \$123,873,000 and \$12,264,000, respectively compared with \$121,911,000 and \$14,268,000 for 1976, and dividend income for each of the same two years was \$924,000 and \$2,448,000, respectively. Exploration costs in 1977 totalled \$3,220,000 and those in 1976 were \$1,690,000.

Corporate expenses were lowered to \$863,000 in 1977 from \$1,132,000 in 1976. Capital expenditures during 1977 totalled \$21,055,000 compared to \$17,805,000 for 1976. The Company's bank indebtedness at year's end was \$67,275,000, an increase of \$19,125,000 over the prior year. Coal inventory build-up and capital expenditures on plant, mining equipment and deferred development at Smoky River account for the increase. Repayment to the Japanese buyers of coal contract advances totalled \$4,984,979, leaving \$1,711,563 to be repaid concurrently with remaining coal deliveries under the contract, which ends March 31, 1978. Working capital on December 31, 1977 was

\$12,815,000 compared with \$1,568,000 one year earlier.

Dividend payments continued during the year at \$1.00 per share and totalled \$2,434,482.

### Smoky River Coal Division

Clean coal production during the first six months of 1977 was near the mine plant's capacity, totalling 977,312 long tons. Because of excessive inventory levels at both Neptune Terminals in Vancouver and the minesite, output was reduced during the remainder of the year to meet contractual deliveries. 2,943,598 long raw tons of coal were mined and 1,740,415 long clean tons produced during the year. Tonnages railed to Neptune Terminals and delivered into vessels during 1977 were 1,595,738 and 1,558,691, respectively.

Clean coal inventories at year's end were 230,538 long tons at the terminal and 166,216 at the minesite.

Raw coal production from the underground and No. 9 surface mines are tabulated below with comparable 1976 figures, all in long tons.

Underground Mines	1977	1976
No. 2-4	82,360	340,578
No. 2A-4	62,232	80,492
No. 2R-4	442,870	79,586
No. 2-10	18,172	8,214
No. 2-11	642,125	607,895
No. 2R-11	18,260	—
No. 2-11 #4 Entry	7,822	—
Surface Mines		
No. 8	—	749,966
No. 9	1,669,757	1,295,729

During the first half of 1977 both Nos. 2-4 and 2A-4 mines were depleted and closed. These were segments of No. 2 mine, one of the two original producing units at Smoky River, and because of unstable roof and floor conditions were inefficient, high cost operations. The coal production lost from their closures has been more than offset by production from expanded development work and the commencement of depillaring operations in the Reiff Terrace (No. 2R-4) mine and the development of new blocks of No. 11 Seam coal in the Smoky River and Sheep Creek drainage areas. Development work was also carried on in No. 10 Seam, where weak roof conditions have necessitated experimental trials using various types and combinations of roof bolts and steel and timber supports. No. 9

mine continued to provide the major share of coal production throughout the year. Late in 1977 the Alberta Energy Resources Conservation Board approved the Company's long range mining and reclamation plans for this property covering an estimated 62,500,000 long raw tons of recoverable coal. Advance waste removal from the western extension of the present mining area at No. 9 progressed on schedule throughout the year, and will provide an important segment of the mine's output during the latter part of 1978 and beyond. Total waste removed during 1977 was 19,411,159 bank cubic yards compared with 13,191,140 during 1976. Comparative waste to coal ratios for the two years were 11.62 to 1 and 10.20 to 1, respectively. Major plant and equipment additions to the Smoky River properties included a fifth 16 cubic yard shovel, three rock trucks, eight coal haulers, a large addition to the No. 9 mine maintenance facilities, and two continuous miners for the underground mines. Each of the three main segments of the Smoky River operations, i.e., underground mines, surface mine and the coal preparation plant, are now fully equipped for capacity output and further capital requirements can be limited to equipment replacements and major maintenance. For 1978 capital expenditures for plant and equipment are budgeted at \$2,906,000, and for deferred mine development, including advance waste removal at No. 9 mine, at \$2,296,000.

The coal preparation plant operated satisfactorily during the year. Clean coal yield after allowance for breaker rejects averaged 64.1%, compared with 63.1% for the prior year. A higher percentage of No. 4 Seam coal than No. 11 seam coal was processed during the year as compared to 1976, which accounts for the improvement. The tailings dewatering plant also performed satisfactorily producing 143,214 long tons of fuel for Alberta Power's H. R. Milner Generating Plant. In addition, 5,741 long tons of non-coking coal, 295,000 long tons of primary rejects from the preparation plant, and 34,926 long tons of tailings recovered from storage ponds were delivered as fuels to this Plant.

Coal production costs were reduced by \$2,866,000 from those for 1976 and this trend is continuing. Increased productivities in both the underground and surface mines, more efficient maintenance of equipment, elimination of most contract services, and higher clean coal recoveries account for the improvement. The work force, including both hourly and salaried employees, was up to full strength at year's end, past deficiencies having been overcome largely by personnel from the mine's training programs. The joint petition

of the Company and the Union to the Anti-Inflation Board for supplemental wage increases to those provided under the 1976 Labour Agreement resulted in an additional 0.82% increase during 1977. On October 1 the hourly paid employees received a 6% pay increase in accordance with the terms of the Agreement, and the salaries of staff employees were also adjusted.

During 1977 all contractual coal tonnages were delivered on schedule and to specification. Sales of Smoky River coal for the year totalled \$112,636,000, compared with \$112,023,000 during the previous year. Deliveries in long tons to the Japanese buyers were 1,428,756 and those to the Company's Canadian customers, Dofasco, Sydney Steel Corporation and Stelco were 108,945. Sales to Dofasco and Sydney Steel were at about the same levels as during 1976, i.e., 47,622 vs. 45,579 and 35,695 vs. 35,272, respectively, while those to Stelco declined from 87,770 to 25,628. A trial shipment of 21,475 metric tons was sold to USIMINAS, a Brazilian steel company in mid-year. During 1977 it became increasingly apparent that the principal Free World steel industries were heading into a major recession. Steadily declining levels of production in Europe and North America were followed by a rapid drop in Japanese output from mid-year onward. As an importer of nearly all of its raw material requirements, deliveries of iron ore and coking coals to the Japanese steel industry under long term contracts built large inventories of these materials which are still growing. In the Company's case, because of the forthcoming expiration of its three year contract with the Japanese buyers, there is a strong inclination on their part not to renew the agreement, because of the mounting coal stocks. Discussions between representatives of the Company and the steel companies there have been in progress since early November, 1977 but to date no conclusion has been reached. Additional meetings are scheduled however, and it is expected that a new contract will be negotiated prior to next April 1.

The prospects for larger coal sales in Canada in 1978 than in 1977 are favourable. The quality and coking properties of Smoky River coal have now been established in this market as equivalent to those of premium brands of U.S. low volatile coal, and the current U.S. coal strike has reduced some steel company inventories of these coals in the U.S. and overseas significantly. Moreover the expiration of the Company's contract with the Japanese, and its restriction on underpricing the coal to other customers will allow some reduction in the current price of the

coal in order to increase its competitiveness in the Canadian and U.S. markets. Such reductions are now possible without serious erosion of profit margins because of lower coal production costs and the heavily discounted Canadian dollar. A further favourable factor is the low cost of all-water transportation from Vancouver to east coast and Great Lake ports. This routing avoids the prohibitive overland railroad freight rates now in effect from western Canadian coalfields to Great Lake ports. This factor also applies to the sale of Smoky River coal to steel mills in the U.S., and an aggressive campaign is currently in progress there.

#### **Copton Excol Ltd.**

The lawsuit between Meadowlark Farms Inc., a subsidiary of Amax Inc. and Copton and the Company as more fully described in the 1976 Annual Report has not yet come to trial; however, examinations for discovery of witnesses from all parties in the dispute have been largely completed. The large diameter core sampling and testing program on the Copton property undertaken by the Company in late 1976 was completed during the latter part of 1977. Results of washability and petrographic tests indicate that while coals from some of the upper seams on the property have marginally acceptable coking properties, coal from the basal No. 4 Seam, which represents over 50% of the Copton coal reserves does not. Samples prepared from these tests were sent to representative Japanese and Canadian steel companies for coking tests with their respective blends of other coals. Their results confirm the results from the earlier test work, and indicate that alternative uses for this coal to that of a premium grade low volatile coking coal must be found.

#### **Falconbridge Nickel Mines Ltd.**

In 1977 the Company incurred a consolidated loss of \$29,223,000 or \$6.23 per share before an extraordinary gain of \$20,238,000 realized from the sale of the shares of Alminex Limited. The loss after this extraordinary item was \$8,985,000 or \$2.15 per share. In 1976 consolidated earnings were \$14,703,000 or \$2.96 per share. The principal factors contributing to the consolidated loss in 1977 were the low world demand for metals and the resultant weakening of metal prices.

The integrated Nickel Operations recorded a loss of \$21,629,000 compared with earnings of \$4,727,000 in 1976. Sales of nickel during the year were significantly

below the amount sold in 1976 while sales of copper were somewhat higher. During the year there was a significant decline in the prices of nickel and copper. Most of the Company's production, however, is sold in U.S. dollars and with the decline in value of the Canadian dollar in 1977 in relation to the U.S. dollar, the drop in the selling prices of the Company's products during the year was offset by gains on foreign exchange. While the Company has maintained its unit production costs at a level comparable with 1976, there have been significant charges to earnings resulting from the shutdown of the Manibridge Mine in Manitoba and the production curtailments at the Sudbury Operations.

#### **Madeleine Mines Ltd.**

Mining operations at Madeleine were suspended in January 1977 and the mine and surface plant were maintained on a standby basis throughout the year. The cash loss for 1977 totalled \$533,000, and working capital at year's end, consisting chiefly of cash and short term investments, totalled \$2,496,000. Severance payments were made to all eligible hourly paid and staff employees who have been laid off. Six salaried employees remain on the property carrying out maintenance work and inspections. The prospects for improved copper prices in the near term are not bright, and no plans have been made by Madeleine's management to re-open the mine.

#### **Exploration**

Expenditures during 1977 on exploration programs totalled \$3,220,000 compared with \$1,690,000 for 1976. Expenditures by the Company and its joint venture partners on the various projects in which it was involved, plus those on 100% McIntyre projects, totalled \$7,949,817. The comparable figure for 1976 was \$2,881,190. The largest program carried out by the Company during the year was on the Nadaleen River lead-zinc-silver prospect in northeastern Yukon Territory. A total of 29 core holes aggregated 15,756 feet tested four surface showings distributed along a well defined carbonate rock unit, which has been traced and staked over a distance of approximately three and one-half miles. The drilling results included several high grade sections of massive lead-zinc-silver mineralization located in the western-most zone; however, the lateral and depth extensions of the showings tested was found to be limited and insufficient to provide the necessary ore tonnage for a viable mining and milling operation. The claims are being held

pending a more favourable economic outlook for lead and zinc, at which time consideration will be given to further testing.

The Doyon Joint Venture, in which the Company holds a one-fifth interest, carried out an extensive exploration and evaluation program on a number of prospective occurrences of tungsten and other base and precious metals on lands belonging to Doyon Limited situated in central and eastern Alaska. A similar sized program, including core drilling of several of the better prospects, will be carried out during the 1978 field season. The Company also entered into a joint venture with General Crude Oil Company, one of the Doyon partners, and Tanana Asbestos Corporation, a subsidiary of Doyon Ltd. to acquire a promising chrysotile asbestos prospect near Eagle, Alaska. A core drilling program was carried out on one of the better showings during 1977 with encouraging results. Additional drilling, together with an economic evaluation of the fiber grades and quality found on this prospect will be carried out during 1978.

The Cordex Syndicate, in which the Company is associated with three other Canadian companies, continued prospecting and property evaluation work in Nevada and Idaho during the year, under a program aimed primarily at the acquisition of gold and/or silver properties. Tungsten prospects in Nevada and Tasmania, Australia were optioned during the latter part of 1977, and are presently being tested.

In Chile the Company joined The Superior Oil Company, Falconbridge Nickel Mines Ltd. and Canadian Superior Oil Ltd. in an agreement with the Government of Chile under which the group of companies will test and evaluate the Quebrada Blanca porphyry copper prospect situated in the northern part of that country. The Company's participation in the group's interest is 20%. Core drilling on the property commenced in October 1977 and currently two drilling rigs are at work. Several excellent grade sections of secondarily enriched sulphide copper mineralizations have been drilled to date.

#### Directors

Mr. Harold M. Griffith, who joined the Board of Directors of the Company on April 25, 1975 has decided not to stand for re-election at the forthcoming shareholders' meeting. The Directors express their regrets, and tender their appreciation to Mr. Griffith for his counsel during his tenure on the Board. The

Board has nominated Mr. James B. Redpath, President and Chief Executive Officer of Dome Mines Ltd. to serve on the Board, subject to the shareholders' approval at their meeting on April 24, 1978.

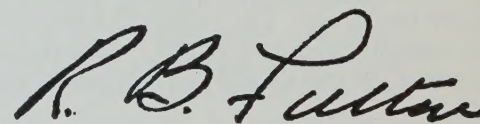
#### Outlook

1978 is an uncertain year for companies such as McIntyre in the metallurgical coal business. Depressed steel sales and ample supplies of competing coals in most of the markets available to the Company will require a strong sales effort coupled with very competitive pricing to maintain past sales volumes. Also, there can be little doubt that in order to penetrate some of those markets and establish the usage of Smoky River coal, profit margins will be marginal or less. On the other hand, coal production costs are steadily being reduced, there is a heavily discounted Canadian dollar, and water-borne transportation costs to the East Coast, Great Lakes and Brazil are highly competitive, all of which provide the means for delivering the coal to consumers in these markets at equal or lower costs than those of our competition. Such a diversification of sales will help to offset the cutback in tonnage the Japanese buyers are sure to make in 1978 and, if successful, it will also permit operations at Smoky River to continue at a level which will necessitate no serious curtailment of its work force.

Earnings from the coal operation in 1978 will likely be significantly below those of 1977 because of reduced sales volume and lower prices. Capital outlays, however, will drop by approximately \$16,000,000 from those of the past year, and a reduction of \$700,000 in exploration expenditures for 1978 compared with 1977 has been budgeted. A positive cash flow is anticipated for 1978.

The Directors and Officers express their appreciation to the Company's employees for their efforts during the year.

On behalf of the Board of Directors,



President

Toronto,  
March 8, 1978.

# AUDITORS' REPORT



Box 51 Toronto-Dominion Centre  
Toronto, Ont. M5K 1G1  
(416) 863-1133 Telex 065-24111

March 7, 1978

To the Shareholders of  
McIntyre Mines Limited

We have examined the consolidated balance sheet of McIntyre Mines Limited as at December 31, 1977 and the consolidated statements of earnings, reinvested earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. The investment in Falconbridge Nickel Mines Limited has been accounted for on the equity basis, and we have relied on the report of the auditors who have examined its financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which, except for the change to the cost method of valuing coal inventory as referred to in Note 1 (b), with which we concur, have been applied on a basis consistent with that of the preceding year.

A handwritten signature in cursive script that reads 'Price Waterhouse &amp; Co.'.

Chartered Accountants



AND SUBSIDIARY COMPANIES

(Incorporated under the laws of the Province of Ontario)

## CONSOLIDATED BALANCE SHEET

(\$000's omitted)

### Assets

	DECEMBER 31	
	1977	1976
<b>Current</b>		
Accounts receivable (Note 2) .....	\$ 2,107	\$ 4,429
Inventories and mine supplies (Note 3) .....	27,475	20,760
	<u>29,582</u>	<u>25,189</u>
<b>Investments (Note 4)</b>		
Falconbridge Nickel Mines Limited .....	99,635	115,817
Madeleine Mines Ltd. ....	1,163	3,423
	<u>100,798</u>	<u>119,240</u>
<b>Properties and Plant</b>		
Plant and equipment at cost (Note 5) .....	84,036	73,670
Less accumulated depreciation .....	25,928	21,350
	<u>58,108</u>	<u>52,320</u>
Deferred mine development less amortization (Note 6) .....	38,882	35,291
	<u>96,990</u>	<u>87,611</u>
<b>Other</b>		
Long-term account receivable .....	3,043	3,363
Employee housing loans .....	2,550	2,591
	<u>5,593</u>	<u>5,954</u>
	<u>\$ 232,963</u>	<u>\$ 237,994</u>

## Liabilities

	DECEMBER 31	
	1977	1976
<b>Current</b>		
Accounts payable .....	\$ 7,827	\$ 5,853
Accrued liabilities .....	7,228	12,338
Current portion of coal sales contract advances .....	1,712	5,430
	<u>16,767</u>	<u>23,621</u>
<b>Coal Sales Contract Advances</b> , less current portion .....	—	1,266
<b>Long-Term</b>		
Bank loan repayable by January 31, 1979 .....	67,275	48,150
<b>Deferred Income Taxes</b> .....	<u>2,094</u>	<u>285</u>
<b>Shareholders' Equity</b>		
Capital stock (Note 13)		
Authorized — 3,000,000 shares without par value		
Issued — 2,434,482 shares .....	9,604	9,604
Reinvested earnings .....	141,011	158,863
	<u>150,615</u>	<u>168,467</u>
Less equity in own shares held by affiliate .....	(3,788)	(3,795)
	<u>146,827</u>	<u>164,672</u>
Approved by the Board:		
R. B. FULTON, Director.		
A. E. FELDMEYER, Director.		
	<u>\$232,963</u>	<u>\$237,994</u>



## CONSOLIDATED EARNINGS

(\$000's omitted)

	YEAR ENDED DECEMBER 31	
	1977	1976
<b>Revenue</b>		
Coal production .....	\$ 123,873	\$ 121,911
Less coal royalty .....	5,036	2,602
	<u>118,837</u>	<u>119,309</u>
Dividends from affiliates .....	924	2,448
	<u>119,761</u>	<u>121,757</u>
<b>Expenses</b>		
Operating costs .....	91,594	92,415
Administration .....	863	1,132
Exploration .....	3,220	1,690
Interest (Note 7) .....	3,845	3,525
Depreciation .....	7,649	5,873
Amortization of deferred development .....	3,567	3,281
	<u>110,738</u>	<u>107,916</u>
<b>Earnings from operations before deferred income taxes</b> .....	9,023	13,841
Deferred income taxes (Note 8) .....	2,920	3,026
<b>Earnings from operations</b> .....	6,103	10,815
Equity (reduction) in undistributed earnings of affiliates .....	(12,599)	2,608
<b>Earnings (loss) before following items</b> .....	(6,496)	13,423
Reduction in valuation of coal inventory to cost of production — net of deferred income taxes (Note 1(b)) .....	(3,003)	—
<b>Earnings (loss) before extraordinary items</b> .....	(9,499)	13,423
Extraordinary items (Note 9) .....	(5,915)	2,741
<b>Consolidated Earnings (Loss)</b> .....	<u>\$ (15,414)</u>	<u>\$ 16,164</u>
<b>Per share</b> (Note 10)		
Earnings (loss) before following items .....	\$ (2.74)	\$ 5.66
Reduction in valuation of coal inventory .....	(1.27)	—
Extraordinary items .....	(2.50)	1.16
<b>Consolidated earnings (loss)</b> .....	<u>\$ (6.51)</u>	<u>\$ 6.82</u>

## CONSOLIDATED REINVESTED EARNINGS

(\$000's omitted)

	YEAR ENDED DECEMBER 31	
	1977	1976
Balance — beginning of year .....	\$ 158,863	\$ 145,068
Consolidated earnings (loss) for year .....	(15,414)	16,164
	<u>143,449</u>	<u>161,232</u>
<b>Dividends</b>		
— current year — \$1.00 per share (Note 10) .....	(2,369)	(2,369)
— prior years .....	(69)	—
<b>Balance — end of year</b> .....	<u>\$ 141,011</u>	<u>\$ 158,863</u>

## CONSOLIDATED CHANGES IN FINANCIAL POSITION

(\$000's omitted)

Source of Funds	YEAR ENDED DECEMBER 31	
	1977	1976
Operations —		
Consolidated earnings (loss) .....	\$ (15,414)	\$ 16,164
Items not affecting working capital:		
Extraordinary items .....	5,915	(2,741)
Depreciation and amortization .....	11,216	9,154
Deferred income taxes .....	1,809	3,026
Reduction (equity) in undistributed earnings of affiliates .....	12,599	(2,608)
	<u>16,125</u>	<u>22,995</u>
Bank financing .....	19,125	7,947
Long-term account receivable .....	320	354
Employee housing loans .....	41	—
Disposal of properties and other assets .....	460	350
	<u>36,071</u>	<u>31,646</u>
<b>Use of Funds</b>		
Plant and equipment .....	13,897	17,069
Deferred mine development .....	7,158	736
Reduction of coal sales contract advances—long term portion ..	1,266	5,963
Dividends paid to shareholders — current year .....	2,369	2,369
— prior years .....	69	—
Dividends paid on own shares held by affiliate (Note 10) .....	65	65
Employee housing loans .....	—	220
	<u>24,824</u>	<u>26,422</u>
Increase in working capital .....	<u>\$ 11,247</u>	<u>\$ 5,224</u>
<b>Working Capital Changes</b>		
Increase (decrease) in current assets		
Accounts receivable .....	\$ (2,322)	\$ 1,051
Inventories and mine supplies .....	6,715	7,971
	<u>4,393</u>	<u>9,022</u>
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities .....	(3,136)	3,798
Current portion of coal sales contract advances .....	(3,718)	—
	<u>(6,854)</u>	<u>3,798</u>
Increase in working capital .....	11,247	5,224
Working capital (deficiency) — beginning of year .....	1,568	(3,656)
Working capital — end of year .....	<u>\$ 12,815</u>	<u>\$ 1,568</u>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1977

### 1. Accounting Policies

#### (a) Principles of consolidation

The consolidated financial statements include the accounts of all companies which are more than 50% owned.

Investments in affiliated companies Falconbridge Nickel Mines Limited (37.2% equity interest) and Madeleine Mines Ltd. (36.4% equity interest) are accounted for by the equity method which reflects the Company's investment at cost plus its interest in reinvested earnings, less amounts written down as explained in note 4.

#### (b) Inventories

At December 31, 1977, the Company changed the basis of valuing its coal inventory from one of net realizable value to one of the lower of cost and net realizable value, cost being determined on the basis of current production costs including depreciation and amortization of plant and properties. This change in basis of valuation has been made in view of the forthcoming expiration on March 31, 1978 of the Company's three year sales agreement with the Japanese buyers and to reflect the anticipated shorter term of future sales agreements. Consolidated earnings for the year ended December 31, 1977 have been reduced by \$3,003,000 after applicable deferred income taxes as a result of this change.

Other inventories are valued at the lower of cost (on a FIFO basis) and net realizable value.

#### (c) Depreciation and amortization

(i) Plant and equipment are being depreciated on a straight-line basis over their productive lives, or in the case of each mining property to which they are appurtenances, over the productive life of the mine in terms of proven coal reserves, whichever is less.

(ii) Maintenance, repairs and renewals expenditures are expensed as incurred. Betterments are capitalized and included as additions to fixed assets.

(iii) Gains or losses on the sale or retirement of material items are taken into earnings. Gains or losses on other items are recorded as an adjustment of accumulated depreciation, in accordance with McIntyre's group depreciation policy.

#### (iv) Development and preproduction expenditures

Expenditures relating to each mine are capitalized until the property is brought into production at or near its designated rate at which time they are amortized on a unit of production basis over the life of the mine in terms of proven reserves. The initial costs of the Smoky River Coal Division including infrastructure and start-up expenses are being amortized on a unit of production basis over the estimated life of total proven coal reserves.

(v) Overburden removal costs, except to the extent they are included in development costs of new mines, are charged to operating costs as incurred or at the average cost per ton based on the recoverable reserves of the specific mining units.

#### (d) Reclamation

The estimated cost of reclamation approved by provincial authorities at the outset of mining operations is provided for on a unit of production basis over the estimated life of each mine based on proven coal reserves. Additional expenditures incurred after the cessation of mining operations due to changes in the initial approved plan are expensed as incurred.

#### (e) Exploration

Exploration costs are charged to earnings as incurred.

#### (f) Interest

Interest is charged against earnings as incurred except interest on debt that can be specifically

identified with a major capital project. In these circumstances interest is capitalized prior to commencement of production.

(g) Income taxes

The Company follows the tax allocation method of accounting whereby timing differences between reported and taxable income result in deferred taxes. Income taxes recoverable on losses are not recognized until realized.

(h) Pensions

Current service costs are a current charge against earnings. Past service costs are amortized and funded over periods not exceeding fifteen years.

## 2. Accounts Receivable

These are as follows:

	(\$000's omitted)	
	1977	1976
Coal settlements receivable .....	\$ —	\$ 2,595
Other receivables .....	2,107	1,834
	<u>\$ 2,107</u>	<u>\$ 4,429</u>

## 3. Inventories and Mine Supplies

These are as follows:

	(\$000's omitted)	
	1977	1976
Specification grade coal .....	\$ 21,171	\$ 14,843
Mine supplies .....	6,204	5,632
Houses for sale to employees less mortgages thereon .....	100	285
	<u>\$ 27,475</u>	<u>\$ 20,760</u>

Effective December 31, 1977, the Company changed the basis of valuing its coal inventory from one of net realizable value to one of the lower of cost and net realizable value (note 1 (b)).

## 4. Investments

(i) Changes in the Company's investments in affiliated companies, accounted for by the equity method, are as follows:

	(\$000's omitted)			
	Falconbridge		Madeleine	
	1977	1976	1977	1976
Investment — beginning of year .....	\$ 115,817	\$ 112,370	\$ 3,423	\$ 4,197
Equity (reduction) in undistributed earnings				
— before extraordinary items .....	(12,417)	3,447	(110)	(499)
— extraordinary items .....	7,535	—	—	—
Writedown of investment .....	(11,300)*	—	(2,150)*	—
Amortization of excess cost .....	—	—	—	(275)
Investment — end of year .....	<u>\$ 99,635</u>	<u>\$ 115,817</u>	<u>\$ 1,163</u>	<u>\$ 3,423</u>
Shares held .....	1,848,414	1,848,414	1,712,208	1,712,208
Market value at December 31 .....	\$ 38,355	\$ 65,619	\$ 1,130	\$ 1,558

\* The Company has reviewed the underlying equity of its investments in Falconbridge and Madeleine in view of their present low market values, the uncertain position regarding the ultimate recovery of assets relating to certain mining properties due to depressed world markets for metals, and because the financial statements of these two companies at December 31, 1977, together with the auditors' reports thereon, expressed uncertainty about the recovery of these assets. The Company believes its investments are overstated in the light of current overall market conditions and outlooks,

and that some recognition thereto is necessary. As a consequence, the Company has written down its investments in these companies by \$13,450,000, of which \$11,300,000 relates to Falconbridge and \$2,150,000 to Madeleine. This writedown is related to underlying mining assets whose long term recovery is uncertain at this time.

(ii) Summarized financial information for these two companies is presented below:

	(\$000's omitted)			
	Falconbridge		Madeleine	
	1977	1976	1977	1976
Current assets .....	\$ 372,379	\$ 252,591	\$ 2,746	\$ 3,600
Other assets .....	515,774	483,394	4,016	4,091
	<u>\$ 888,153</u>	<u>\$ 735,985</u>	<u>\$ 6,762</u>	<u>\$ 7,691</u>
Current liabilities .....	\$ 119,968	\$ 100,508	\$ 250	\$ 646
Long-term liabilities .....	385,058	314,228	68	298
Shareholders' equity — preferred .....	75,000	—	—	—
— common .....	308,127	321,249	6,444	6,747
	<u>\$ 888,153</u>	<u>\$ 735,985</u>	<u>\$ 6,762</u>	<u>\$ 7,691</u>
Earnings (loss) attributable to common equity				
— before extraordinary items .....	\$ (30,915)	\$ 14,703	\$ (303)	\$ 276
— after extraordinary items .....	<u>(10,677)</u>	<u>14,703</u>	<u>(303)</u>	<u>276</u>
Dividends paid on common shares .....	<u>\$ 2,482</u>	<u>\$ 4,962</u>	<u>\$ —</u>	<u>\$ 1,647</u>

## 5. Plant and Equipment

Plant and equipment at cost are as follows:

	(\$000's omitted)	
	1977	1976
Smoky River Coal Division		
Underground equipment .....	\$ 13,824	\$ 15,294
Surface plant and equipment .....	69,520	57,697
	<u>83,344</u>	<u>72,991</u>
Other .....	692	679
	<u>84,036</u>	<u>73,670</u>
Less accumulated depreciation .....	25,928	21,350
	<u>\$ 58,108</u>	<u>\$ 52,320</u>

## 6. Deferred Mine Development

Unamortized mine development costs are as follows:

	(\$000's omitted)	
	1977	1976
Producing properties .....	\$ 14,485	\$ 14,642
Non-producing properties .....	8,412	7,301
Initial costs, including infrastructure and start-up expenses ..	11,098	13,348
	<u>33,995</u>	<u>35,291</u>
Deferred overburden removal costs .....	4,887	—
	<u>\$ 38,882</u>	<u>\$ 35,291</u>

## 7. Interest

Interest capitalized during the year amounted to \$880,000 (1976 — \$921,000).

## 8. Income Taxes

The tax effect of earned depletion and resource allowances has reduced the charge for deferred income taxes on operations during the year by \$3,826,000 (1976 — \$3,786,000).

At December 31, 1977 the Company had accumulated earned depletion allowances amounting to approximately \$14,000,000 which are available to reduce future income tax charges.

## 9. Extraordinary Items

	(\$000's omitted)	
	1977	1976
Extraordinary items consist of the following:		
Company's equity in the gain on sale of investment in Alminex Limited by Falconbridge Nickel Mines Limited .....	\$ 7,535	\$ —
Writedown of investments in affiliated companies (note 4) ..	(13,450)	—
Reduction in charge for deferred income taxes as a result of the application of prior years' losses .....	—	2,741
	<u>\$ (5,915)</u>	<u>\$ 2,741</u>

## 10. Earnings Per Share and Dividends Paid

In calculating earnings per share and dividends paid the total issued shares have been reduced by 65,463 shares (1976 — 65,477 shares) being McIntyre's proportion of its own shares held by an affiliated company.

Exercise of the share options outstanding would not affect to any extent the earnings per share for the year ended December 31, 1977.

## 11. Unrecorded Asset

Up to December 31, 1977 the Company had incurred expenditures of approximately \$700,000 on certain crown leases that the Government of Alberta will cancel under its new Coal Development Policy, with compensation to be based on approved expenditures, adjusted to a current dollar basis, plus interest. At the present time the Government of Alberta is not in a position to determine the amount that is to be paid to the Company, but it is expected to be substantially in excess of the figure mentioned above. The amount when determined will be reflected in the accounts as an extraordinary credit in the statement of earnings.

## 12. Commitments and Contingencies

(i) The Company has guaranteed mortgages amounting to \$12,067,000 at December 31, 1977 in respect of employee housing in Grande Cache.

(ii) A long term lease agreement for the supply of unit-train rail cars for the transportation of coal provides for minimum rental charges of \$1,090,000 per year.

(iii) Certain open-pit mining equipment required for the operation of No. 9 Mine has been leased under a long-term agreement at an annual rental of \$1,010,000. At December 31, 1977 the total rentals remaining to be paid over the term of this agreement amounted to \$5,368,000.

(iv) The Company is obligated to pay approximately \$500,000 for the balance of purchase of shares of a subsidiary company (80.5% owned) in the event the subsidiary secures a contract for the sale of coal from its property.

(v) At December 31, 1977 budgeted capital expenditures for plant and equipment additions and replacement and for new mine development totalled \$5,202,000.

(vi) Alberta Power Limited, the assignee of Canadian Utilities, in 1973 commenced an action against the Company in the Supreme Court of Alberta claiming damages in the amount of \$804,000 for costs allegedly incurred by it in connection with the supply and use of coal supplied by the Company to December 31, 1973, and requesting certain declaratory and injunctive relief. The Company is defending the action. In the opinion of counsel, the plaintiff will not be successful in obtaining judgment of the amount of damages claimed or in obtaining an injunction. No provision therefor has been made in the accounts.

The Company maintains that it is legally bound under the contract to supply only by-product coal from its metallurgical coal mining and processing operations. It believes, on the basis of its by-product coal production since its metallurgical coal mining operation at Smoky River commenced in 1971, that there will not be sufficient amounts of specification by-product coal available to fulfill the requirements of Alberta Power. The Company is presently delivering by-product coal to Alberta Power on a month to month basis, at cost, and the parties are jointly investigating the technical and economic feasibility of utilizing all of the by-product coal produced by the Company from its Smoky River operation as a step towards the long-term rationalization of the power plant's fuel requirements. The results of those investigations will be available early in 1978 and will provide the basis for negotiations between the parties in respect of the fulfillment of this requirement.

(vii) On June 1, 1974 Copton Excol Limited, an 80.5% subsidiary of McIntyre, entered into an agreement with Meadowlark Farms Inc., a wholly owned subsidiary of Amax Inc., to further explore and evaluate Copton's coal properties in the Smoky River Region of Alberta in order to determine the economic feasibility of developing the properties for production. Under the terms of the agreement Meadowlark was to acquire a 50% interest in Copton's coal properties if, among other things, it delivered to Copton prior to May 31, 1976 a complete and detailed economic feasibility study in respect of Copton's coal properties on the basis of which it had to be prepared to proceed with the development of the properties to production. If it failed to do so the agreement terminated.

Prior to May 31, 1976 Meadowlark delivered to Copton a purported feasibility study which was reviewed by Copton with the assistance of independent engineering consultants. Based upon the opinions and information provided by these parties at that time counsel was of the opinion that the study submitted by Meadowlark did not qualify as a complete and detailed economic feasibility study within the terms of the agreement. Accordingly, on June 8, 1976 Meadowlark was advised in writing that the agreement had terminated.

In a counterclaim filed by Meadowlark in an action commenced by Copton on August 3, 1976 Meadowlark claims damages against Copton in the amount of \$308,382,000 and also alleges, among other things, that McIntyre induced Copton to breach the agreement. Examinations for discovery in that action have now been substantially completed.

Based on the opinion of its counsel, McIntyre maintains that there is no justification for any claims against it and, accordingly, no provision for damages has been made in the accounts. Copton is also denying the claims made against it.

(viii) Company pension contribution costs for the year, including past service costs, were \$708,000 (1976 — \$500,000).

Total unfunded past service liability at December 31, 1977 amounted to \$291,000 relating to improvements in plan benefits made in 1973 and 1975. The liability is being amortized by annual payments of \$33,000.

(ix) Anti-Inflation Programme

The Company is subject to, and believes it has complied with, controls on prices, profits, compensation and dividends under the Federal Government's anti-inflation programme. These controls are due to be phased out during 1978.

**13. Capital Stock**

175,000 shares have been set aside under the Executive and Key Employees Stock Option Plan. Of these, 135,450 had been issued to December 31, 1977.

Options outstanding at December 31, 1977 were:

10,000 shares at \$41.80 per share granted January 25, 1973 and expiring January 24, 1983.

16,000 shares at \$25.18 per share granted October 21, 1977 and expiring October 19, 1987.

**14. Remuneration of Directors and Senior Officers**

Aggregate remuneration paid to directors and senior officers was \$413,000 which compares with the 1976 remuneration total of \$446,000.

## FIVE YEAR SUMMARY

<b>Production</b>	<b>1977</b>	<b>1976</b>	<b>1975</b>	<b>1974</b>	<b>1973</b>
Raw coal (long tons) .....	2,943,598	3,162,460	2,588,309	2,358,357	2,086,667
Clean coal (long tons) .....	1,740,415	1,864,630	1,680,068	1,528,268	1,441,535
Copper (pounds) (a) .....	—	—	—	—	8,372,000
Gold (ounces) (a) .....	—	—	—	—	68,548
<b>Earnings (\$000's omitted)</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue — coal production .....	123,873	121,911	95,736	48,093	30,455
Less coal royalty .....	5,036	2,602	206	171	161
	118,837	119,309	95,530	47,922	30,294
— metal production (a) .....	—	—	—	273	12,979
Dividends from affiliates .....	924	2,448	2,277	5,324	2,875
Exploration .....	3,220	1,690	1,980	1,242	881
Interest expense .....	3,845	3,525	3,778	5,631	4,716
Depreciation .....	7,649	5,873	4,493	3,462	3,729
Amortization of deferred development .....	3,567	3,281	2,993	1,030	1,219
Deferred income taxes .....	2,920	3,026	4,600	—	—
Earnings (loss) from operations .....	6,103	10,815	14,217	5,873	(952)
Equity (reduction) in undistributed earnings of affiliates .....	(12,599)	2,608	(1,279)	6,676	16,806
Reduction in valuation of coal inventory ..	(3,003)	—	—	—	—
Extraordinary gains (losses) .....	(5,915)	2,741	4,600	—	6,105
Consolidated earnings (loss) .....	(15,414)	16,164	17,538	12,549	21,959
Per share (b) .....	(\$6.51)	\$6.82	\$7.40	\$5.30	\$9.27
Dividends paid .....	2,369	2,369	1,184	—	—
Per share (b) .....	\$1.00	\$1.00	\$0.50	—	—
<b>Financial Position (\$000's omitted)</b>					
Working capital (deficiency) .....	12,815	1,568	(3,656)	13,690	3,114
Investments .....	100,798	119,240	116,917	118,168	111,799
Properties and plant .....	96,990	87,611	78,960	71,048	60,587
Coal sales contract advances, less current portion .....	—	1,266	7,229	12,416	—
Long-term debt .....	67,275	48,150	40,203	62,323	59,403
Shareholders' equity .....	146,827	164,672	150,877	134,523	121,974
Per share (b) .....	\$61.98	\$69.51	\$63.69	\$56.79	\$51.49
<b>Shareholders and Employees — December 31</b>					
Total shares outstanding .....	2,434,482	2,434,482	2,434,482	2,434,482	2,434,482
Shareholders .....	2,737	2,720	2,819	3,039	3,049
Employees .....	998	950	850	724	491

(a) Schumacher Mine sold November 27, 1973.

(b) Per share figures calculated on the basis of total shares outstanding, less equity in own shares held by affiliate.



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